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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Item 3
Agenda I.D. # 12034

ENERGY DIVISION **RESOLUTION G-3477**
May 9, 2013

R E S O L U T I O N

Resolution G-3477. Southern California Gas Company requests approval of four baseload contracts to be used to support Southern System minimum flow requirements and maintain system reliability pursuant to Decision 07-12-019.

PROPOSED OUTCOME: This Resolution approves three of the four baseload contracts, and conditionally approves the remaining contract. While the term of the approved contracts expires March 31, 2013, this resolution will provide guidance to SoCalGas if it should enter into similar contracts in the future.

SAFETY CONSIDERATIONS: This resolution has an indirect positive impact on customer safety through its potential to reduce curtailments.

ESTIMATED COST: $1,377,000

By Advice Letter 4399-G filed on August 31, 2012

SUMMARY

Southern California Gas Company (SoCalGas) filed Advice Letter 4399 on August 31, 2012 requesting approval of four baseload contracts to be used to support Southern System minimum flow requirements. Under the contracts 280,000 dekatherms (dth) of gas would be supplied each day at an estimated net price of $0.002/dth plus Backbone Transportation Service (BTS) charges. This Resolution approves three baseload contracts for 255,000 dth per day as proposed by SoCalGas. The Resolution approves the remaining contract for 25,000 dth per day conditioned on the outcome of Resolution 3476. If Resolution 3476 approves the use of a Memorandum in Lieu of Contract (MILC) as a tool to assist in managing minimum flow requirements, the remaining contract to purchase 25,000 dth/day is not needed. Only if the MILC is not

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approved, does SoCalGas have the authority to purchase the baseload contract for 25,000 dth/day.[1]

The baseload contracts proposed in AL 4399 are for a term ending March 31. Given that the date of the Commission meeting for consideration of this resolution is beyond the term of the contracts they can no longer be implemented. However, it is likely that SoCalGas will propose similar contracts in the future and this resolution provides a guide to the issues considered for approval of future contracts. On that basis the resolution should be reviewed and approved.

Such baseload contracts would have a potential indirect positive impact on safety. The contracts would assure supply of gas for a significant part of Southern System demand. As a result they would reduce the potential for curtailments of noncore customers, some of whom may provide essential services.

BACKGROUND

SoCalGas needs a certain minimum amount (which can vary depending upon conditions) of flowing supplies on its Southern System for the system to operate efficiently and safely and assure deliveries to its customers. The SoCalGas Gas Acquisition Department (GA) had previously assured such flowing supplies using core customer assets. When GA needed to purchase additional spot supplies to meet minimum flow requirements at Ehrenberg, the eastern origin of the Southern System, its incremental costs to do so were recorded in a memorandum account.

In response to a SoCalGas/San Diego Gas & Electric/Southern California Edison Application to transfer this responsibility from GA, Decision (D.) 07-12-019 directed the System Operator (SO) to take over responsibility for managing Southern System minimum flow requirements as of April 1, 2009. [2]

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[1] Resolution 3476 approved a second MILC with modifications. However, the finalized memorandum has not yet been approved.

[2] The SO is "broadly defined to constitute the SoCalGas departments responsible for the operation of its transmission system, including storage, hub services, pooling services receipt point access, offsystem deliveries, and system reliability. The System Operator functions explicitly exclude the Gas Procurement Department which will not be involved in any of the system-related operational activities." D.07-12-019, p. 58.

D.07-12-019 granted Applicants' proposal for a variety of System Operator Tools to manage minimum flow requirements:

- the ability of the SO to buy and sell gas on a spot basis, as needed, to maintain system reliability;
- authority to conduct requests for offers (RFO) or an open season process consistent with the SO needs; and,
- authority to approve an expedited Advice Letter approval process for contracts that result from a RFO or open season process.[3]

D.07-12-019 also provided that Applicants' request for approval of additional SO tools on an interim basis be made by advice letter and that further consideration of the process for review and approval of additional SO tools shall be made in the next Biennial Cost Allocation Proceeding (BCAP).[4]

Under its authority to conduct RFOs, **SoCalGas solicited proposals in December of 2008 to assist in managing its minimum flow requirements. Among the responses were proposals for baseload contracts.**
Resolution G-3435, dated September 10, 2009 approved a baseload contract for 20,000 dth/day for the months December through February, as well as other contracts. In approving the contract for 120,000 dth/day the Resolution also required that the SO or the contract or transaction counterparty must pay an interruptible or firm access rights charge on any gas received.[5] SoCalGas notes that the net price /dth for the approved contract equaled $0.12. A similar

[3] D.07-12-019, Ordering Paragraph 16. In response to a Petition for Modification filed by the Division of Ratepayer Advocates (DRA) and the Southern California Generation Coalition (SCGC), the Commission issued D.10-05-005, which replaced the 10-day protest period allowed for expedited advice letters with the regular 20-day protest period for these advice letters.

[4] SoCalGas and SDG&E filed A.08-002-001 requesting authority to revise their rates effective January 1, 2009 in their BCAP. That BCAP (A.08-02-001) resulted in D.09-11-006 wherein the Commission adopted a Settlement Agreement of all parties. Among other provisions, the adopted Settlement Agreement changed the term of the Cost Allocation Proceeding filing to every 3 years – a Triennial Cost Allocation Proceeding (TCAP).

[5] Resolution G-3453, p. 33.

contract for 280,000 dth/day was not approved, partly because the Resolution found that the amount contracted for would potentially exceed the need.[6]

On July 17, 2012 SoCalGas posted an RFO on its Electronic Bulletin Board for proposals to supply baseload gas at the El Paso SoCal Ehrenberg delivery point or at the TGN Otay Mesa delivery point for the December 2012 through March 2013 period to better meet its minimum flow requirements on the Southern System.[7] The posting stated that SoCalGas would consider taking these deliveries as an exchange, a buy-sell, a gas sale, or through other means.

Following the RFO, SoCalGas filed, on August 31, 2012, Advice Letter (AL) No. 4399 requesting approval of four baseload contracts for deliveries of natural gas supplies at the Ehrenberg delivery point. The key provisions of the contracts are:

- **purchases by the SO of 280,000 dth/day (in total for all four contracts) at the Ehrenberg delivery point;**
- **prices indexed to the Natural Gas Intelligence (NGI) SoCalGas border prices, plus 8.2 cents/dth;**
- **payment for Backbone Transportation Service (BTS);**
- **resale of the gas at the SoCalGas Citygate**.

[6] The RFO produced eleven responses. Two of these were baseload contracts. The contract for 280,000 dth/day that was not approved was between GA and the SO. In addition to the concern about the quantity of supply the resolution raised issues concerning the consistency between D.07-12-019 which transferred responsibility for Southern System minimum flow requirements from GA to the SO and the proposed contract which appeared to shift responsibility back to GA.

[7] Ehrenberg traditionally has been the most frequently used receipt point for managing Southern System minimum flow requirements. However, SoCalGas anticipated that supplies could be needed at Otay Mesa and Decision 07-12-019 notes that supplies delivered at Otay Mesa may assist in fulfilling the minimum flowing gas supply requirement at Blythe (a delivery point just West of Ehrenberg and part of the Southern System). The SoCalGas System Operator has successfully used deliveries at Otay Mesa to support Southern System requirements. Otay Mesa is located at the California/Mexico border, approximately 10 miles inland from the Pacific Ocean. Blythe is located at the California/Arizona border, approximately 120 miles east of Palm Springs.

The purchase price under the contracts will equal the sum of the SoCalGas border price plus $.082/dth and BTS charges. The gas will be resold at the SoCalGas Citygate. Given recent Citygate prices, SoCalGas estimates that the contracts will yield a net cost of $.002/dth, plus the BTS charges.[8]

According to AL 4399, the quantity delivered under the contracts will represent 50% of the average Southern System minimum flow requirements posted in the first quarter of 2012, i.e., 560,000 dth. SoCalGas continues that, "Assuming the approval of AL 4394, which requests a year's extension of the current contract with Gas Acquisition to maintain supplies at Ehrenberg, the Hub will be responsible for 50% of the Southern System Minimum Flow Requirements. Thus, the baseload contracts herein will meet 50% of the expected average Southern System Minimum Flow Requirements."[9] On days when the minimum requirement exceeds 560,000 dth, and supplies are not being delivered by noncore customers, the SO would rely on spot purchases to make up any shortfall. SoCalGas expects that the minimum flow requirement will not exceed 760,000 dth/day[10].

NOTICE

SoCalGas states that a copy of AL 4399 was sent to parties listed on Attachment A to the AL which includes parties in the Omnibus Proceeding, A.06-08-026, 2009 BCAP proceeding, A.08-02-001, and the Firm Access Rights Update Proceeding, A.10-03-028.

PROTESTS AND RESPONSES

Southern California Edison Company (SCE) provided a timely response to

[8] In addition, the cost will include Backbone Transportation Service (BTS) charges. These charges are currently set at approximately $0.11/dth. Last year BTS rates were discounted to $0.033/dth, and SoCalGas suggests they will be similarly priced this year.

[9] SoCalGas AL 4399, p. 2. AL 4394 proposes a Memorandum in Lieu of Contract (MILC) between the SO and GA. The MILC proposed in AL 4394 is similar to the MILC approved, with modifications, by Resolution G-3468 in response to AL 4291-A. However, the two ALs, 4394 and 4399, while they may work in tandem if both were approved, are independent of each other.

[10] Ibid., p.2, footnote 9.

AL 4394. The response also included comments concerning AL 4399 which requests Commission approval of a Memorandum in Lieu of Contract (MILC) to meet minimum flow requirements. The SCE response requested that AL 4399 be considered in conjunction with AL 4394.

AL 4399 was timely protested by SCE and the Southern California Generation Coalition (SCGC). Both protests challenged the cost effectiveness of the baseload contracts and questioned the level of purchases under the contracts.

SCE contends that AL 4399 and 4394 are "intertwined".

On September 6, 2012, SCE provided a response to AL 4394 which includes comments concerning AL 4399. SCE contends that AL 4399 and 4394 are "intertwined" and that "consideration of AL 4394 in a vacuum could prejudge the outcome of AL 4399, which has a direct impact on SoCalGas noncore customers like SCE."[11] Based on this, SCE urges the Commission to address the two proposals in combination rather than separately.

On September 13, 2012 SoCalGas filed a reply to the SCE response. SoCalGas states that the SO tools proposed in the two ALs operate independently. Supporting their reply, SoCalGas states that if either tool is approved and the other denied they would make use of the approved tool.

On September 20, 2012, SCE protested AL 4399.[12] **SCE questions the cost-effectiveness of the baseload contracts.**

The protest states that "SCE does not believe that the proposed baseload contracts are the most cost effective way of reliably meeting the Southern System

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[11]Response of Southern California Edison Company to Southern California Gas Company's Advice Letter 4394, September 6, 2012, p. 1. AL 4394 requests approval of a "Second" MILC. As stated in footnote 7, the first MILC was approved subject to modification by Resolution G-3468 and the modified MILC in AL 4291-A,

[12] As part of its Response of September 6, 2012, SCE requested that parties be allowed to respond to both AL 4394 and 4399 on September 20, 2012. The Energy Division granted this request which had the effect of extending the protest period for AL 4394 to coincide with that for AL 4399, i.e., September 20, and allowing parties to address both ALs together. On this basis, the SCE protest addressed both AL 4394 as well as 4399.

minimum flow requirements."[13] Specifically, SCE discusses the effectiveness of spot purchases and the potential for additional North/South flows using the new Line 6916 as alternatives.

Providing a comparison of the cost of spot purchases and the cost of baseload contracts at issue here, SCE contends that the proposed baseload contracts would result in the purchase of 33,880,000 dth at an estimated total cost of $4,113,032. SCE states that in the previous winter season, 2011/2012, far less gas, 3,070,000 dth, was purchased. According to SCE, at that volume, even with a spot purchase price of $0.36/dth, the total costs were around $1,105,200 which is substantially less than the estimated cost of the baseload contracts. Further, SCE contends that since "SoCalGas is not requesting approval to sell the pre-purchased baseload volumes at a known Citygate price, … there is a risk that this cost can be much higher if SoCalGas does not sell the pre-purchased baseload supply at SoCal Citygate index flat. The un-qualified price risk amount would be borne by the customer's allocated SRMA [the System Reliability Maintenance Account] costs in addition to the cost burden of the baseload purchases. SoCalGas' proposed baseload supply contracts unnecessarily increases costs by approximately $3 million."[14]

With regard to the new Line 6916, SCE states that, according to SoCalGas, beginning in the fourth quarter of 2012 an additional 80,000 dth/day could flow from the Northern to the Southern System. According to SCE, this would reduce the need for spot purchases by 80,000 dth/day. Using prior year costs of $.36/dth and the reduced volume, the costs would be $977,400 vs. over $4.1 million for the baseload contracts.

On September 20, 2012, SCGC filed a protest to AL 4399. SCGC contends that SoCalGas has failed to show that procuring supply using the baseload contracts would be cheaper than buying gas as needed on the spot market.

SCGC notes that during December through March of 2012, significantly less gas was purchased than would be acquired under the baseload contracts. Similar to the SCE protest, SCGC contends that if the purchases were made on the spot

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[13] Protest of Southern California Edison company to Southern California Gas Company's Advice Letter Nos. 4399 and 4394, September 20,2012, p. 4.

[14] Ibid., pp. 4-5.

market at the same net price of $0.36/dth, and in the same amount as the prior year, total costs would be only 30 percent of that projected by SoCalGas under the four baseload contracts. Based on this observation, the protest comments that customers who will have to bear the System Reliability Maintenance Account (SRMA) cost would be better off if spot purchases were used rather than the baseload contracts.

Additionally, SCGC asserts that SoCalGas has not considered the "full array of tools that are available… to meet the minimum flow requirement on the Southern System, particularly the ability to discount BTS rates for transportation on the Southern System backbone."[15] The protest concludes that SoCalGas should aggressively discount to attract supply to Southern System delivery points when needed and that doing so may reduce the need for spot purchases as well as baseload purchases.

On September 27, 2012, SoCalGas replied to the protests of SCE and SCGC.[16] The reply addresses three issues raised in common in the protests: 1) the quantity of gas purchases likely to be needed; 2) the value of baseload contracts vis-à-vis spot purchases; and, 3) cost estimates of the baseload contracts relative to spot purchases.

Regarding the quantity of supply likely to be purchased, the reply notes that both the SCE and SCGC protests are based on an assumption that the SO will need to purchase approximately as much supply in the December 2012 through March 2013 period as it did in the prior winter season. SoCalGas comments that with the reopening of the Topock receipt point, GA will be reducing the amount it previously flowed to Ehrenberg. Further, the reply notes that, absent a Memorandum in Lieu of Contract (MILC),[17] GA is not obligated to bring supplies to the Southern System and that at times there is an economic disincentive to do so. Finally, the reply states that the ongoing San Onofre Nuclear Generating Station (SONGS) outage will likely result in increased demand. SoCalGas

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[15] Protest of SCGC to SoCal Gas AL 4399, September 20, 2012, p. 3.

[16] The Reply also included comments concerning SCE and SCGC's protests concerning AL 4394.

[17] A Memorandum in Lieu of Contract between the GA and SO was approved in Resolution 3468 which provided for 50% of the Southern System minimum flow requirement and which was targeted to meet Core's share of the minimum flow requirement. A second MILC is currently under consideration by the Commission in draft resolution G-3476.

contends that the purchase amounts used in the protests represent an unrealistic best case scenario. According to SoCalGas, the actual needs for purchases will be higher.

Concerning the value of baseload contracts, SoCalGas asserts that the proposed contracts compare favorably with those previously approved by the Commission. Additionally, the reply states that the contracts are more reliable than spot supplies since they are regularly scheduled and are not subject to scheduling cuts that more frequently occur with spot purchases. On this issue the reply concludes by noting that the contracts make the supplier responsible for incremental replacement costs should it fail to meet the daily volume commitment. Most spot purchase commitments do not provide this protection.

SoCalGas points out that the cost estimates presented by SCE and SCGC are based both on unrealistically low levels of gas purchases likely to be needed for the coming period and errors in both calculation and logic. Having already discussed the likely need for purchase quantities in excess of the prior winter season, the reply focuses on the methods used by each to calculate costs. SoCalGas notes that SCE inappropriately adds a fuel charge to the BTS rate when making cost comparisons. SCGC also asserts that the BTS charges used by SCGC in calculating the costs of the baseload contracts are overstated.

SoCalGas makes two additional comments in its reply. First, it acknowledges that use of BTS discounts as raised by the SCGC protest is one way to help meet minimum flow requirements. However, it adds that this alone will not produce the needed results. Further it notes that the discounting is not cost-free and will ultimately be born by backbone rights holders. Secondly, SoCalGas addresses SCE's assertion that, since SoCalGas did not request approval to sell the pre-purchased baseload volumes at a known Citygate price, there is additional risk that costs will be higher than the SoCalGas estimates. SoCalGas notes that Commission approval for sales of the volumes is not required and that it "intends to sell the gas on a baseloaded basis over the December-March period using the first of the month Citygate indices or monthly strips."[18]

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[18] SoCal Gas Reply to protests of ALs 4394 and 4399 by SCE and SCGC, September 27, 2012, p. 13.

DISCUSSION

Since the proposed baseload contracts presented in AL 4399 and the MILC presented in AL 4394 are both trying to ensure that the minimum flow requirements are met, approval of the baseload contracts approved in this resolution should be taken into account in reviewing and approving AL 4394 which requests approval of the MILC. The Commission should consider and approve the proposed contracts even though they can no longer be implemented. The resolution provides a framework for approval of future baseload contracts.

Because both the baseload contracts in AL 4399 and the MILC in AL 4394 address the minimum flow requirements, we will take into account the quantities of gas involved in the MILC in deciding which contracts to approve here. Accordingly, we find that if the MILC is approved, only three contracts providing for a total of 255,000 dth/day should be approved through this Resolution. If the MILC is not approved, all four contracts providing for 280,000 dth/day should be approved. The baseload contracts represent an effective tool to manage southern system minimum flow requirements independent of the Commission's decision regarding the MILC. Three of the baseload contracts proposed by SoCalGas, providing 255,000 dth/day, are approved. One additional contract for 25,000 dth/day is, conditioned on approval of the MILC presented in SoCalGas AL 4394. If the MILC is not approved, the additional contract providing a total of 25,000 dth/day is also approved.

SCE in its response to AL 4394 comments that AL 4394 is intertwined with AL 4399 and that the Commission should address the two ALs in conjunction with each other. By taking into account the volumes approved in AL 4394, this resolution addresses SCE's concerns.

SCE asserts that considering AL 4394 in a vacuum could prejudge the outcome of AL 4399. SCE summarizes the relationship between the two as "two separate proposals designed to work in concert with each other to resolve a single problem [i.e., the inadequacy of the Southern System] at the same time. AL 4394 has a direct bearing on the sharing mechanism for the costs of supporting the Southern System, those costs being largely affected by AL 4399."[19] Based on

[19] Response of Southern California Edison Company to Southern California Gas Company's Advice Letter 4394, 9/6/2012, p.3.

their comments SCE requested, and the Commission allowed, stakeholders to address both of the advice letters on September 20, 2012, the deadline for AL 4399 thereby allowing approximately two weeks past the deadline for protests to AL 4394.

Contrary to the SCE and SCGC protests, the three approved baseload contracts are a cost effective method to manage minimum flow requirements. The contracts provide for a reliable source of supply given the likelihood of continued high demand and a likely reduction in flows previously provided by SoCalGas GA.

The contracts provide for greater reliability and significantly reduce the cost risk of high spot prices. Their costs compare favorably with costs over the last three years. However, we believe that if the MILC under consideration by the Commission in AL 4394 is approved, approval of all four baseload contracts presented here will result in more supply than needed and will result in needless costs. Based on our assessment of recent operational history and the conditions likely to impact minimum flow requirements during the remainder of the contract term, the amounts supplied through the three approved contracts should provide a reasonable level of support for southern system supply at a low cost.[20] This assumes that the MILC is also approved. The MILC will provide for additional flowing supplies further reducing the risk of reliability problems on the Southern System. If the MILC is not approved then all four contracts for a total of 280,000 dth/day are approved.

The SCE and SCGC protests consider only the most recent period, 2011/12, and thus overlook three key factors impacting the supply levels and costs of maintaining southern system reliability on an ongoing basis. The primary focus of the SCE and SCGC protests is the volume of purchases they assume for the 2012/13 December to March (Dec.-Mar.) period. The protest is premised on an analysis that considers only the most recent, December 2011 through March 2012, period as the basis for comparison to the contracts proposed in AL 4399. Both SCE and SCGC posit that if spot purchases were made again during the 2012/13 Dec.-Mar. period at the same price and in the same quantity as in 2011/12, the total net cost would approximate $1.1 million. The protests

[20] Given Commission schedules, it is likely that only contracts for March would be implemented.

contrast this scenario to projections of net costs of between $3.7 and $4.1 million using the proposed baseload contracts. However, the comparison neglects to consider several important factors. These include: 1) the likelihood that southern system flow requirements will be higher than those for 2011/12; 2) the potential that GA will not provide the quantity of flowing supply into the Southern System that it has in the past; and, 3) historical information beyond the most recent Dec.-Mar. period. When these factors are considered it is likely that neither the southern system flow requirements nor the pricing, let alone both variables, will mirror the results of the 2011/2012 Dec.-Mar. period.

The Southern System minimum flow requirement has increased overall and is likely to remain higher than prior winter seasons. This reflects, at least in part, the continuing shutdown of the SONGS. In response to a data request from the Energy Division, SoCalGas provided an estimate and supporting data indicating that the shutdown led to an 81 Mdth/day increase in Southern System minimum flow requirements for the months of February and March of 2012. It is reasonable to anticipate that a similar level of increased need will be reflected in the 2012/13 Dec.-Mar. period. Further, an Energy Division Staff (Staff) review of Dec.-Mar. minimum flow requirements for the last three years shows that average daily minimum flow requirements increased by 4.8% from the Dec.-Mar. 2009/10 to 2010/11 period and an additional 14.3% from the 2010/11 to 2011/12 period. A Staff review of Southern System minimum flow requirements provided in response to an Energy Division data request indicates that the requirement was, on average, 529,000 dth/day during the months of December through March of 2011/12. Additionally, as discussed later, it is possible that GA will reduce its flows into the system. In summary, minimum flow requirements are not stable year-to-year and over the last three years have been on the increase. Recent history and anticipated operational changes suggests that 2012/13 will have differing flow requirements and purchase needs than those in 2011/12.

It is reasonable to expect that the minimum requirements will increase relative to prior years and require significant purchases beyond those in December to March of 2011/12. The approved baseload contract amount of 255,000 dth/day should, if the MILC is also approved, provide assurance that approximately 98% of the minimum flow requirement, based on the 2011/12 period amounts, will be met. As presented in the preceding and following paragraphs it is highly reasonable to expect that current and future minimum flow requirements will be higher than that experienced in 2011/12. Allowing for a moderate increase of 5% over the 2011/12 period, the MILC plus approved contracts for 255,000 dth/day will meet approximately 96% of the minimum requirement. This is a significant amount of secure supply, and it will limit the need for potentially more expensive spot purchases. At these levels, all four contracts are not necessary. The full amount of the four proposed contracts, 280,000 dth/day, exceeds the 2011/12 period numbers by 3%. With a 5% increase in the minimum requirement, the four contracts would exceed the need by approximately 1%. Were the MILC not to be approved, a much smaller amount of the minimum flow requirement, estimated in the neighborhood 40 to 50 percent or less of the amount needed, would be secure. Under this circumstance, all four contracts are approved.

Other than the MILC, there is no requirement in D.07-12-019 or in any other Commission decision or resolution that requires that GA make flows on the Southern System and at times there is an economic disincentive to do so. It is reasonable to expect that GA should and would, if uneconomic, decline to use core assets to make flows into the Southern System.

SoCalGas notes in its reply to the SCE and SCGC protests, that, "The continuing need for additional flowing supplies on the Southern System derives from the fact that it is frequently not in the economic interest of any shipper (including Gas Acquisition) to deliver supplies into the Southern System, even when a shipper has the pipeline capacity to do so. SoCalGas believes that during the upcoming winter it is highly likely that there will again be episodes during which it will not be economic to deliver into the Southern System."[21] SoCalGas also notes that ever since the SO took over responsibility for Southern System minimum flow requirements, GA has "flowed substantial volumes into the Southern System for a variety of reasons, including the closure of the Topock receipt point for maintenance and preexisting transportation agreements with El Paso. However, Topock has reopened and Gas Acquisition has decreased its El Paso capacity by more than 100 MMcfd."[22] In summary, non core customers have benefitted by GA flows into the Southern System. Those flows are likely to decrease, and even with the MILC, it is possible that GA's deliveries into the southern system will decrease compared to previous years, increasing the need for deliveries from other shippers.

[21] SoCalGas Reply to SCE and SCGC Protests of September 20, 2012, September 27,2012, p. 11.

[22] Ibid., p. 11.

Review of past purchase volumes indicates that volumes needed to ensure minimum flow requirements and spot purchase prices can vary greatly over time. It is not prudent to rely on low spot prices and low volumes from a past period in assessing the minimum flow requirements.

A Staff review of purchase volumes indicates that they have varied substantially over the last three years. Over 11 million dth was purchased in the 2009/10 winter, vs. just over a million dth in 2010/11 and just over 3 million in 2011/12. Spot prices have also varied substantially and have been the highest cost method of securing supply to meet Southern System minimum flow requirements. Spot purchases were made in each of the last three Dec.-Mar. periods. For 2009/10 the price/dth was $.53, for 2010/11 $3.62, and for 2011/12, $.36. In contrast, the cost/dth of gas purchased in 2009/10 through a baseload contract was $.16. Perhaps the most telling example of variability is the Dec.-Mar. period for 2010/11. This period had the lowest volume of purchases but, based on high spot prices, the total highest net cost of any of the last three years at approximately $3.8 million. Had all of the gas that the SO attempted to purchase to meet Southern System minimum flow requirements actually been delivered, the total cost for the 2010/11 Dec-March period could have been as much as double the $3.8 million actually incurred.[23] In summary, the experience of the last three years suggest that it is prudent to make use of multiple tools especially those that bring a higher level of reliability with the likelihood of lower cost. The baseload contracts achieve this under current and reasonably anticipated demand.

SCE expresses a concern that since SoCalGas does not request approval to sell the pre-purchased baseload volumes at a known Citygate price, there is a risk that this cost can be much higher if SoCalGas does not sell the pre-purchased baseload supply at SoCal Citygate index flat. This concern is unfounded in light of the fact that SoCalGas confirms its clear intent to do so.

SCE notes the newly available 80,000 dth/day capacity on Line 6916. Based on the assumption that this capacity would be used for North/South flows to offset

[23] Purchase volumes and prices based on information provided in the SoCalGas Annual Compliance Reports for the 2009/10, 2010/11 and 2011/12 years. In 2010/11 there was a shortfall of just under 1 million dth due to weather related supply problems. The shortfall represented approximately half of the amount needed and resulted in curtailments.

80,000 dth of potential spot purchases, SCE asserts that the use of spot purchases for the 2012/13 winter season would be further reduced from $1.1 million to $977,400. However, SCE again neglects the fact that there is no requirement that the flows be made to the benefit of the Southern System, and to the extent that they are these may merely offset a portion of otherwise reduced flows by GA. SCE also contends that since SoCalGas does not request approval to sell the pre-purchased baseload volumes at a known Citygate price, there is a risk that this cost can be much higher if SoCalGas does not sell the pre-purchased baseload supply at SoCal Citygate index flat. The un-qualified price risk amount would be borne by the customer's allocated SRMA [the System Reliability Maintenance Account] costs in addition to the cost burden of the baseload purchases. As SoCalGas states in its reply, it is not required by the Commission to seek approval to sell the pre-purchased baseload volumes. However, SoCalGas confirms its clear intent to do so. Further, it has premised its entire presentation of the cost effectiveness of the contracts on the resale of the baseload volumes. SoCalGas notes that at the time AL 4399 was filed the Citygate held an $.08/dth premium over the border price. This allowed for a net price of $.002/dth for the contracts. A staff review of the border price/Citygate price premium for the thirty day period beginning on November 6 indicates an even more favorable spread. Finally if SoCalGas did not sell the volumes, it would face considerable risk of being found unreasonable when it files its Annual Compliance Report.

We agree that BTS discounts may not be sufficient to drive the supply needed to meet the required flows.

SCGC proposes that SoCalGas make use of BTS discounts to encourage delivery of additional supply into the Southern System. SoCalGas agrees with the potential positive impact of BTS discounts. It notes, however, that these are not sufficient to drive the supply needed to meet the required flows nor are they without cost. Ultimately the discounts will be recovered from backbone rights holders. Both in SoCalGas' specific reply to SCGC and in comments throughout the reply concerning BTS charges and discounts, SoCalGas signaled its intent to use discounts.

While the term of the approved contracts expires March 31, 2013, this resolution will provide guidance to SoCalGas if it should enter into similar contracts in the future. The baseload contracts proposed by SoCalGas have terms ending March 31. As such they can no longer be implemented. However, baseload contracts provide a potentially cost effective method to help manage Southern System minimum flow requirements. This resolution provides information concerning the types of issues likely to be presented and considered should future baseload contracts be proposed. Included among these are 1) both recent and longer term history concerning minimum flow requirements; 2) current conditions likely to impact supply and/or demand levels (e.g. SONGS outage); 3) the relative costs of alterative tools; 4) the relative reliability of differing tools; 5) changes in circumstances likely to impact whether, and if so, in what quantity GA will make flows that reduce minimum flow requirements given that it is not required to do so. On that basis the resolution should be reviewed and approved.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from today.

FINDINGS AND CONCLUSIONS

1. Decision (D.) 07-12-019, Ordering Paragraph 15, granted SoCalGas' request that responsibility for managing minimum flow requirements for Southern System reliability be transferred from the Gas Acquisition Department (GA) to the System Operator (SO) and that the SO costs for managing minimum flow requirements be paid for by all customers.
2. D.07-12-019, Ordering Paragraph 16 granted SoCalGas' requests for the following SO tools:
   a) The ability of the SO to buy and sell gas on a spot basis, as needed, to maintain system reliability.
   b) Authority to conduct requests for offers (RFO) or an open season process consistent with SO needs.
   c) Authority to submit an Advice Letter (AL) for approval of contracts that result from an RFO or open season process.
3. D.07-12-019 also provided for approval of additional SO tools by AL.

4. SoCalGas filed AL 4399 on August 31, 2012 requesting approval of four baseload contracts. The contracts were the result of an RFO made on July 17, 2012.
5. The baseload contracts have the same provisions:
   a) Daily purchases at the Ehrenberg delivery point each day for the period of December, 2012 through March, 2013. The contracts differ in their daily delivery amounts, and in total provide for 280,000 dth/day.
   b) Prices indexed to the NGI SoCalGas border prices. The price will equal the SoCalGas border price plus $0.082/dth.
   c) Payment for Backbone Transmission Service (BTS).
   d) Resale of the gas at the SoCalGas Citygate.
6. The term of the contracts ends as of March 31, 2013 and can no longer be implemented.
7. The Resolution presents the issues relevant to the approval of future baseload contracts, and should be reviewed and approved to inform future proposals for their use.
8. SoCalGas estimates that, after resale of the gas at the SoCal Gas Citygate where the price, at the time the AL was filed, was $0.08/dth higher than the border price, the net cost of the contracts will be $0.002/dth plus the BTS charge. A Staff review of Citygate prices since the filing indicates that they remain at or more than $.08 higher than the border price. The BTS charge is applicable to other supply alternatives such as spot purchases.
9. The net cost of the proposed contracts compares favorably with previously approved baseload contracts. The Commission, in Resolution G-3435, approved the use of baseload contracts for the period December 2009 through 2010. The approved contracts were for 120,000 dth/day at a net price of $0.12/dth plus BTS charges.
10. SCE, in response to a separate but related Advice Letter 4394, requested that the Commission consider AL 4399 in conjunction with AL 4394. AL 4394 requests approval of a second Memorandum in Lieu of Contract (MILC) as a tool to manage southern system minimum flow requirements. SCE asserts that the MILC and the baseload contracts are intertwined and must be considered together.
11. SoCalGas AL 4399 was timely protested by Southern California Edison (SCE) and the Southern California Generation Coalition (SCGC) on September 20, 2012. Both protests challenged the cost effectiveness of the proposed baseload contracts based on a comparison of the estimated costs of the baseload contacts with costs of spot purchases made in 2011/12.

During December through March of 2011/12 shortfalls in the minimum flow requirements were met exclusively through spot purchases.

12. SoCalGas submitted a timely reply to the protest on September 27, 2012. The reply notes that circumstances concerning current levels and anticipated increases in Southern System minimum flow requirements differ significantly from those in 2011/12; the costs of the contracts are favorable relative to previously approved contracts; and the contracts offer greater reliability than spot purchases. The pricing of the contracts is significantly less/dth than spot purchases made over the last three years.
13. The approval of baseload contracts as a tool is not conditioned on the approval of the MILC proposed in AL 4394. However, the volumes approved under the baseload contracts consider whether the MILC is approved.
14. The contracts provide an efficient method to manage Southern System minimum flow requirements. Energy Division Staff reviews of three-year daily Southern System volumes and minimum flow requirements; the cost of meeting shortfalls in flows to maintain the requirements; and the SONGS outage and operational changes at GA indicate that the contracts are cost effective in meeting southern system reliability requirements.
15. The total supply of the four contracts is excessive if the MILC proposed in AL 4394 is also approved. In this case the total supply provided by the four baseload contracts exceeds 2011/12 December through March minimum flow requirements even when those levels are increased by a hypothetical five percent. At a daily level of 255,000 dth/day, approximately 98% of the 2011/12 period requirement is met.
16. Three of the contracts, totaling 255,000 dth/day, should be approved if the Commission also approves the MILC. The remaining contract for 25,000 dth should be approved if the MILC is not approved.

THEREFORE IT IS ORDERED THAT:

1. The request of the Southern California Gas Company for three of the requested baseload contracts with a combined daily delivery amount of 255,000 dth is approved. The fourth contract in the amount of 25,000 dth is approved conditioned on the MILC presented in AL 4394 being denied.
2. Either, but not both, of the contracts offering a supply of 25,000 dth/ day is approved, unless the MILC is not approved in which case all four contracts are approved.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on May 9, 2013; the following Commissioners voting favorably thereon:

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Paul Clanon
Executive Director